

1996 Iowa Legislative Summaries

with emphasis on Tax and Finance

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FAMILY FARM PROPERTY TAX CREDIT

HF 560

Prior Law

If the property was owned by an individual, only the owner or the owner's spouse, parent, grandparent, child, grandchild or stepchild and their spouses could be considered a "designated person" for purposes of qualifying the property for the tax credit.

The credit was not allowable if the owner leased the property to a family farm corporation or partnership.

New Provisions

The definition of "designated person" was expanded to include the property owner's relatives within the third degree of consanguinity and their spouses so that these persons could also qualify the property for the tax credit.

The credit is now allowable if the owner leases the property to a family farm corporation or partnership and at least 51% of the corporate stock or partnership interest is owned by the owner of the property or the owner's relative within the third degree of consanguinity.

Sections Amended

Section 1 of House File 560 amends § 425A.2(4), Code 1995, and section 2 provides an effective date.

Effective Date

January 1, 1996. Applicable to family farm tax credit claims filed on or after January 1, 1996.

VEHICLES SUBJECT TO REGISTRATION PURCHASED FOR LEASE

HF 569

Prior Law

Vehicles subject to registration or subject only to the issuance of a certificate, when purchased for lease and leased for a period of more than sixty days, are subject to the five percent use tax computed on the purchase price of the vehicle.

New Provisions

The tax imposed upon the use of leased vehicles subject to registration under chapter 321, with a gross vehicle weight rating less than sixteen thousand pounds, excluding motorcycles and motorized bicycles, which are leased by a lessor licensed pursuant to chapter 321F for a period of twelve months or more is paid to the county treasurer or state department of transportation whichever registers the vehicle.

The amount subject to tax is computed on each separate lease transaction by multiplying the number of months of the lease by the monthly lease payments, plus the down payment, less any manufacturer's rebate.

If the lease is terminated prior to the termination date contained in the lease agreement, no refund is allowed for tax previously paid on the monthly payments.

Sections Amended

House File 569 amends section 331.557, subsection 3; 423.2, 423.4, 423.6, subsection 1, and adds new section 423.7A.

Effective Date

Leases entered into on or after January 1, 1997.

MOTOR FUEL TAX CORRECTIONS

HF 2140

Prior Law

The definition of "blender" erroneously omitted the word "gasoline" in stating what blends are to be taxed as gasoline and the definition of "special fuel" included kerosene in all instances.

A special fuel dealer was erroneously excluded as being eligible to share in the distribution allowance.

Importers were inaccurately included as being required to file reports on a monthly basis.

An agent could be designated to file and receive a refund only for idle time, power takeoff, reefer units, pumping credits and transport diversions.

All information obtained by the Department from reports filed by licensees was considered confidential.

An assessment could not be made beyond 3 years from the date of the assessment.

New Provisions

The definition of "blender" is amended to clarify that a blend of gasoline and products other than grain alcohol is to be taxed as gasoline and the definition of "special fuel" is amended to exclude kerosene unless blended with other special fuels for use in a motor vehicle.

A special fuel dealer is allowed to share in the distribution allowance.

It is clarified that importers are to file reports on a semimonthly rather than a monthly basis.

A governmental agency is allowed to designate another governmental agency as an agent for filing and receiving any tax refund.

The number of gallons of fuel withdrawn from terminals or imported by licensees is considered public information.

The 3 year limit for the Department to make an assessment applies to the date the return is filed.

Sections Amended

Section 1 of House File 2140 amends § 321.19(2), unnumbered paragraph 3; section 2 amends § 452A.2(2), (15) and (21); section 3 amends § 452A.5, unnumbered paragraph 2; section 4 amends § 452A.8(2), unnumbered paragraph 1; section 5 amends § 452A.8(2)(a), unnumbered paragraph

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1; section 6 amends § 452A.8(2)(c); section 7 amends § 452A.8(2)(e), unnumbered paragraph 2; section 8 amends § 452A.17(1)(a), unnumbered paragraph 1; section 9 amends § 452A.17(1)(a)(8); section 10 amends § 452A.17(1)(b)(7); section 11 amends § 452A.17(3)(b); section 12 amends § 452A.21, unnumbered paragraph 3; section 13 amends § 452A.63, unnumbered paragraph 1; section 14 amends § 452A.67; section 15 amends § 452A.71; section 16 amends § 452A.72; section 17 amends § 452A.74(1) and (6); section 18 amends § 452A.74(8), unnumbered paragraph 1; section 19 amends § 452A.74A(2), unnumbered paragraph 1; section 20 amends § 452A.74A(3); section 21 provides an effective date.

Effective Date

Effective April 8, 1996 and applies retroactively to January 1, 1996.

SALES TAX EXEMPTIONS ON INDUSTRIAL MACHINERY, COMPUTERS AND EQUIPMENT

HF 2165-A

Prior Law

Senate File 69, 1995 GA amended chapter 427B to exempt from property tax machinery, equipment and computers first assessed on or after January 1, 1995 (acquired on or after January 1, 1994).

Section 422.45, subsection 27 was not amended since it contained a provision that chapters 404 and 427B which result in the exemption from taxation of property for property tax purposes do not preclude the property from receiving the sales and use tax exemption.

Section 422.45 (27)"a" (1) defined insurance companies as an insurer organized or operating under chapters 508, 514, 4514, 518, 519, 520 or authorized to do business in Iowa as an insurer and having fifty or more persons employed in this state excluding insurance agents.

New Provisions

Section 422.45, subsection 27 was amended to clarify that industrial machinery, equipment and computers must be real property within the scope of section 427A.1, subsection 1, paragraphs "e" and "j" and for sales occurring after January 1, 1994, the property is not required to be subject to taxation as real property.

Section 422.45(27)"a"(1) was further amended to eliminate the requirement that insurance companies have fifty or more persons employed in this state excluding licensed agents, and extended the exemption to insurers or an insurance agent licensed under chapter 522.

Sections Amended

House File 2165, section 1, amended section 422.45, subsection 27.

Effective Date

Effective upon enactment, April 4, 1996.

PROPERTY TAX ON MACHINERY, EQUIPMENT AND COMPUTERS

HF 2165-B

Prior Law

Senate File 69, enacted in 1995, prohibited allowance of the exemption and phase-out of the tax on computers, machinery and equipment located in urban renewal areas financed with bonds issued on or after January 1, 1982 and on or before June 30, 1995 and the machinery, equipment and computers of a business the taxes on which are used to fund a new jobs training project approved on or before June 30, 1995.

The statute did not require assessor notification for determining taxable or exempt status.

Cities and counties had no right of appeal if debt obligations could not be met as a result of the exemption and phase-out of the tax.

New Provisions

The restriction on the exemption and phase-out of the tax on machinery, equipment and computers located in urban renewal areas was repealed and made retroactive to 1995 assessments.

A community college is required to notify the assessor by February 15 of each year if the business's property will be taxed to finance a new jobs training project.

A tax increment financing district is defined as a taxing district for purposes of allocating the tax replacement claim.

Cities and counties in which an urban renewal district is located are allowed to appeal to the state appeal board for assistance in meeting debt obligations if the debt is not secured by a minimum assessment agreement and the area contains taxable machinery and equipment.

Sections Amended

Section 2 of House File 2165 repeals § 427B.17(6); section 3 amends § 427B.17(7); section 4 amends § 427B.19 by adding new subsections 5 and 6; section 5 amends § 427B.19A(3); section 6 amends § 427B.19A by adding new subsections 4 and 5; section 7 creates new § 427B.19C;

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section 8 creates new § 427B.19D; and sections 9 and 10 provide effective dates. All amendments are to Code Supplement 1995.

Effective Date

Effective upon enactment. Section 2 applies retroactively to 1995 assessments.

NEXUS LIMITATION FOREIGN CORPORATIONS

HF 2166

Prior Law

None

New Provisions

A foreign corporation will not be subject to Iowa corporation income tax if its only activities in Iowa are the following:

1. Holding meetings of the Board of Directors or shareholders or holiday parties or employee appreciation dinners.
2. Maintaining bank accounts.
3. Borrowing money, with or without security.
4. Utilizing Iowa courts for litigation.
5. Owning and controlling a subsidiary corporation which is incorporated in or which is transacting business within this state where the holding or parent company has no physical presence in the state as that presence relates to the ownership or control of the subsidiary.
6. Recruiting personnel where hiring occurs outside the state.

Sections Amended

New section 422.34A is created

Effective Date

Retroactive to January 1, 1996 for tax years beginning on or after that date.

WITHHOLDING FROM UNEMPLOYMENT BENEFITS

HF 2229

Prior Law

None

New Provisions

Voluntary withholding of state income tax is authorized from unemployment benefits paid after December 31, 1996 which relate to new applications for benefits made in 1997 and thereafter. Iowa income tax is to be withheld at a 5% rate. An individual's election to have state income tax withheld from unemployment benefits is separate from any election for having federal income tax withheld from the benefits.

Section Amended

New subsection 10 is added to section 96.3.

Effective Date

January 1, 1997, for withholding of state income tax from unemployment benefits paid on or after that date to the extent the application for benefits is made in 1997 or after 1997.

RECIPROCAL SHIPMENT OF WINE

HF 2315

Prior Law

None

New Provisions

"Equal reciprocal shipping privilege" means allowing wineries located in this state to ship into another state, wine, not for resale, but for consumption or use by a person twenty-one years of age or older.

A winery licensed or permitted pursuant to laws regulating alcoholic beverages in a state which affords this state an equal reciprocal shipping privilege may ship into this state by private common carrier, to a person twenty-one years of age or older, not more than eighteen liters of wine per month, for consumption or use by the person. Such wine can not be resold. Shipment of wine pursuant to this subsection is not subject to sales tax under section 422.43, use tax under 423.2

Section Amended

House File 2315 amended chapter 123 by adding a new section, 123.187.

Effective Date

Effective July 1, 1996.

REAL ESTATE TRANSFER TAX EXEMPTION FOR LIMITED LIABILITY COMPANIES

HF 2370

Prior Law

Mergers, consolidations and reorganizations of limited liability companies were subject to the real estate transfer tax.

New Provisions

Mergers, consolidations and reorganizations of limited liability companies are exempt from the real estate transfer tax.

Sections Amended

Section 1 of House File 2370 amends § 428A.2(14), Code Supplement 1995.

Effective Date

Effective July 1, 1996.

INTERSTATE BRANCH BANKING

HF 2409

Prior Law

None

New Provisions

Effective July 1, 1996 an Iowa bank may establish an out-of-state branch in any other state.
Effective June 1, 1997 an out-of-state bank may establish an Iowa branch by merging with an existing Iowa bank.

Sections Amended

Section 15 of House File 2409 creates Iowa Code section 524.1201.

Effective Date

Effective July 1, 1996.

STATE AND COUNTY FAIRS

HF 2422

Prior Law

State and county fairs are required to collect tax on the sale of tangible personal property and services rendered, furnished or performed by the state or county fair.

New Provision

The gross receipts from sales or services rendered, furnished, or performed by the state fair organized under chapter 173 or a fair society organized under chapter 174 are exempt from tax.

Section Amended

House File 2422 amends section 422.45 by adding a new subsection 50.

Effective Date

July 1, 1996.

NEW JOBS AND INCOME ACT (Economic Development Areas)

HF 2481

Prior Law

Similar provisions exist for enterprise zones (chapter 15, 15A.9).

New Provisions

The following new provisions are added to chapter 15 (part 13) new jobs and income act.

- The Department of Economic Development (IDED) may designate a site or sites, as an "economic development area" to attract new business to locate in the state.
- Project completion means the first date upon which the annualized production of finished product for the proceeding ninety day period is at least fifty percent of the initial design capacity of the facility.
- The sale and use tax exemption under section 422.45, subsection 27, is applicable to machinery, equipment and computer purchases.
- Taxes paid pursuant to chapter 422 or 423 on the gross receipts or rental price of property purchased or rented, including gas, electricity, water and sewer utility services, prior to the project completion is refunded to the primary or supporting business. The refund does not apply to furniture or furnishings ,or intangible property.
- The primary or supporting business is entitled to a refund of all taxes paid on tangible personal property, services for gas, electricity, water or sewer services paid by a contractor or subcontractor and used in the fulfillment of a written contract relating to construction or equipment.
- The refund procedure is similar to section 422.45, subsection 7.

Sections Amended

House File 2481, section 1 amended section 15.327 by adding new subsections 1A, 3A, 6 and 7. Section 2, 3, 4, and 5 added new sections 15.331A, 15.334A and 15.337.

Effective Date

Effective July 1, 1996.

SPECIAL CENSUS FOR PERSONAL PROPERTY TAX REPLACEMENT BASE

HF 2488

Prior Law

For purposes of computing the personal property tax replacement amount for cities, a special census had to be certified to the Secretary of State by December 31 to be used in the apportionment the following calendar year.

New Provisions

A city has 30 days from the effective date of the legislation to certify the results of a special census to the Secretary of State for the new census data to be used in the apportionment of the personal property tax replacement amount for fiscal 1996.

Sections Amended

The legislation will not be codified.

Effective Date

Effective April 18, 1996.

MODIFICATION OR TERMINATION OF CERTAIN TESTAMENTARY TRUSTS

HF 2500

Prior Law

None

New Provisions

On petition by a trustee or beneficiary, and after notice to all interested parties as determined by the court, if the court determines that the fair market value of a testamentary trust has become so low in relation to the cost of administration that continuation of the trust under its existing terms will defeat or substantially impair the accomplishment of its purposes, the court may, in its discretion, order termination of the trust, modification of the trust, or appointment of a new trustee.

If the court orders the termination of the trust, disposition of all property must be made according to the will provisions that address the disposition of the property in the event the trust is terminated. However, if the will does not address the disposition of the trust property, the property is distributed according to what the court determines as most consistent with the trustor's original intent.

Sections Amended

House File 2500 amended chapter 633 by adding a new section 633.699A.

Effective Date

Effective July 1, 1996.

AGRICULTURAL PACKAGING

SF 2097

Prior Law

None

New Provisions

The gross receipts from the sale of property which is a container, label, carton, pallet, packing case, wrapping, bailing wire, twine, bag, bottle, shipping case, or other similar article or receptacle sold for use in agricultural, livestock or dairy production are exempt from tax.

Section Amended

Senate File 2097 amends section 422.45 by adding a new subsection.

Effective Date

Effective July 1, 1996.

UPDATE OF REFERENCES TO THE INTERNAL REVENUE CODE

SF 2168-A

Prior Law

The major reference to the internal revenue code was amended up through April 15, 1995 to include the provisions of the self-employed health insurance act in Iowa income tax law. However, the references to the internal revenue code in the three statutes for the research activities credit were changed to January 1, 1995.

New Provisions

The major reference to the internal revenue code is changed to March 20, 1996 to include into Iowa income tax law many of the provisions of Pub.L. No. 104-117 enacted earlier this year by Congress which provides certain tax benefits to members of the Armed Forces of the United States that are performing peacekeeping efforts in the Bosnia area. See separate writeup for military tax benefits that are deemed to be authorized as a result of updating the Iowa Code to include changes in the internal revenue code through March 20, 1996. The internal revenue code reference in the research activities credit in a quality job enterprise zone is amended to January 1, 1996.

Sections Amended

Section 15a.9, subsection 8, unnumbered paragraph 2 is amended in section 1 of Senate File 2168. Section 422.3, subsection 4 is amended in section 2 of Senate File 2168.

Effective Date

Sections 1 and 2 are effective retroactively to January 1, 1995, for tax years beginning on or after that date.

PROVIDES TAX BENEFITS TO INDIVIDUALS SUPPORTING MILITARY ACTIVITIES IN BOSNIA-HERZEGOVINA

SF 2168-B

Prior Law

Provides certain tax benefits to individuals serving in an area designated as a combat zone or to individuals supporting military personnel in the combat zone.

New Provisions

Provides that individuals in the armed forces serving in an area that has been designated by Congress as a hazardous duty area or individuals serving in support of these forces are eligible for certain state tax benefits. Under prior law only persons serving in a combat zone or individuals serving in support of these persons would have been eligible for these benefits. Public Law No. 104-117 was enacted by Congress earlier this year. This law specified that Bosnia, Herzegovina, Croatia and Macedonia were qualified hazardous duty areas so that members of the Armed Forces of the United States serving peacekeeping duties in any of the areas would be eligible for the same federal tax benefits as they would have been entitled if they had been serving in an area designated as a combat zone. Thus, persons who have served in the hazardous duty area or persons serving in support of troops in the area which will be called eligible persons for purposes of this write-up will be eligible for a number of state tax benefits. The eligible persons will be given the same additional time period to file state income tax returns and to perform other acts related to the department as would constitute timely filing of the returns or timely performance of the acts as described in section 7508(a) of the Internal Revenue Code. "Other acts related to the Department" includes filing claims for refund for any tax administered by the Department, making tax payments other than withholding payments, filing appeals on tax matters, filing tax returns for taxes other than income tax returns and performing other acts described in the rules of the Department. The additional time period allowed applies to the spouse of the eligible person to the extent the spouse files jointly or separately on the combined return with the eligible person or when the spouse is a party with the eligible person to any matter for which the additional time period is allowed. The additional time period for filing state and performing other acts for eligible persons is 180 days after the persons leave the hazardous duty area or other area where the persons were in support of the troops in the hazardous area. However, an eligible person who was hospitalized because of illness or injury in the hazardous area or the area of support has up to five years to file returns or perform certain acts with the Department after leaving the hazardous duty area or support area. These time periods are identical to the time periods provided under federal law for filing returns and paying taxes pursuant to section 7508(a) of the Internal Revenue Code.

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Sections Amended

Section 422.3, subsection 4 is amended in section 2 of Senate File 2168.

Effective Date

Retroactive to January 1, 1995 for tax years beginning on or after that date.

TAX TREATMENT OF INCOME REPAID IN CURRENT YEAR WHICH HAD BEEN TAXED IN A PRIOR YEAR

SF 2168-C

Prior Law

None

New Provisions

Provides tax treatment on the Iowa individual income tax return which is similar to the Federal treatment under section 1341 of the Internal Revenue Code when income is repaid in the current tax year which was reported and taxed on a prior Iowa return. The taxpayer who has repaid the income can either take a deduction in the year the income is repaid or recompute the tax in the prior year without the repaid income. The reduction in tax for the prior year is a refundable credit on the return for the year in which the income was repaid. These types of transactions are considered to be made on a claim of right for federal income tax purposes.

Sections Amended

New subsection 12 is added to section 422.5.

Effective Date

Retroactive to January 1, 1992, for tax years beginning on or after that date.

SALES OR USE TAX PAID ON AIRCRAFT REGISTERED WITH THE IOWA DEPARTMENT OF TRANSPORTATION

SF 2266

Prior Law

When an aircraft was registered for the first time the person was required to submit proof that the sales or use tax had been paid before the application for registration was processed.

If tax had not been paid, this information was furnished to revenue and finance who proceeded to collect the tax. When the tax was paid or evidence of an exemption was provided, revenue and finance notified D.O.T. who then proceeded to issued the registration.

New Provisions

When an aircraft is registered for the first time the application should include the registration fee and any tax imposed under sections 422.43 or 423.2 or evidence that the tax has been previously paid, or evidence the aircraft is not subject to sales or use tax.

Sections Amended

Senate File 2266, section 23 amended section 328.26.

Effective Date

Effective July 1, 1996.

INDIVIDUAL DEVELOPMENT ACCOUNTS

SF 2324

Prior Law

Individual investment accounts are authorized for persons that have household incomes of 200% of federal poverty level. The individual development accounts (IDA's) are intended to provide low-income persons the opportunity to accumulate moneys that can be used for the four purposes shown below:

1. Education at accredited institutions of higher education.
2. Training costs for an accredited or licensed training program.
3. Purchase of a primary residence.
4. Capitalization of a small business start-up.

The owners of the accounts are not subject to Iowa income tax on the following amounts:

1. Contributions made to the accounts by persons and entities other than the taxpayer.
2. Savings refunds which are payments by the state for contributions made in the year to the IDA by the account holder. The savings refunds range from 20% of the payment for account holders with household income less than 150% of the federal poverty level to 10% to account holders with a household income of 190% of federal poverty level but less than 200% of federal poverty level. Note the savings refund cannot exceed \$2,000.
3. Earnings from the account in the year which are not withdrawn or the interest earned.

The owners are subject to Iowa income tax on the following:

1. Earnings on the account in the year which they are withdrawn.
2. Amounts withdrawn which are not to be utilized for one of the four purposes described above.
3. Amounts received by the taxpayer when an account is closed which have not been previously taxed. However, if the account is closed amounts redeposited in another IDA account or in the state human investment reserve pool are taxed.

For inheritance tax purposes, if a holder of an IDA dies and that person's IDA passes to another person's IDA, there is a tax exemption of up to \$10,000 of the IDA that is transferred. If an IDA is passed to the state human investment reserve pool, there is no inheritance tax.

New Provisions

The owners are not subject to Iowa income tax on the following items which were previously subject to tax:

1. Earnings on the account in the year which they are withdrawn.
2. Amounts withdrawn which are not to be utilized for one of the four purposes described above.
3. Amounts received by the taxpayer when an account is closed which have not been previously taxed. However, if the account is closed amounts redeposited in another IDA account or in the state human investment reserve pool are taxed.

Savings refunds which are payments by the state for contributions made in the year to the IDA by the account holder, range from 25% of the payment for account holders with household income less than 150% of the federal poverty level to 15% to account holders with a household income of 175% of federal poverty level but less than 200% of federal poverty level. Note the savings refund cannot exceed \$2,000.

There is no inheritance tax on an individual development account that passes to another individual development account.

Sections Amended

Section 7 of Senate File 2324 amends Iowa Code section 422.7, subsection 28, section 8 amends Iowa Code section 450.4, subsection 6, and section 11 amends Iowa Code section 541A, subsections 1 and 2.

Effective Date

Effective July 1, 1996.

WORKFORCE DEVELOPMENT CHANGES AND A SUPPLEMENTAL NEW JOBS CREDIT FROM WITHHOLDING

SF 2351

Prior Law

At the time payment in full occurred of a certificate of participation or other obligation that had been issued to fund a job training program authorized under chapter 260E, the Department was to have been notified of the amount paid by the employer to the community college in the last 12 months. The Department was then to credit 25% of this amount from the employer's withholding tax payments in each calendar quarter over the next ten years to the Workforce Development Fund. The maximum amount that was to be credited to the Workforce Development Fund from all employer's withholding tax payments in a year was to be 2 million dollars. Section 422.16A which authorized transfer of withholding tax payments to the Workforce Development Fund was to be repealed on June 30, 1997.

New jobs credits from withholding were authorized in Chapters 260E and 260F.

New Provisions

The maximum amount that can be transferred by the Department from withholding tax payments in a year to the Workforce Development Fund is increased to ten million dollars. Section 422.16A is no longer to be repealed on June 30, 1997.

A supplemental new jobs credit from withholding is provided in new section 15A.7. The new jobs credit from withholding for small businesses in section 260F.5 is repealed.

Sections Amended

Section 15A.7 is included in section 8 of S.F. 2351. Section 422.16A is amended in section 17 of this Act. Section 12 of Chapter 184 of 1995 Acts is repealed in section 19 of SF 2351. Section 260F.5 is repealed in section 21 of SF 2351.

Effective Date

April 30, 1996 when the bill was signed by the governor.

TERMINOLOGY FOR PERSONS WITH MENTAL AND PHYSICAL CONDITIONS

SF 2438

Prior Law

Special assessment property tax credit recipients were described as totally disabled persons and persons residing in low-rent housing projects that qualify for a property tax exemption were described as persons that were physically or mentally handicapped.

New Provisions

A recipient of a special assessment property tax credit is referred to as a person with a total disability and a person residing in a low-rent housing project that qualifies for a property tax exemption is referred to as a person with a physical or mental disability.

Sections Amended

Section 93 of Senate File 2438 amends § 425.23(3)(b), Code 1995, and section 94 amends § 427.1(34), Code Supplement 1995.

Effective Date

Effective July 1, 1996.

FULL INDEXATION OF THE TAX RATE BRACKETS AND THE STANDARD DEDUCTION AMOUNTS FOR INFLATION

SF 2449-A

Prior Law

The tax rate bracket amounts for a tax year were increased by 50% of the inflation rate for the determination period if the balance in the state general fund on June 30th of the prior year exceeded 60 million dollars. The standard deduction amounts for the tax year were increased by 50% of the inflation rate for the determination period without considering the general fund balance. The determination period was a twelve month period ending at the end of the second quarter of the calendar year prior to the year the indexing is for. The inflation factor used was the annual percent change in the implicit price deflator for the gross national product.

New Provisions

The tax rate bracket amounts and the standard deduction amounts are increased by the full amount of inflation determined for the same period as under the prior law. A technical change is made to reflect that the index used to determine the inflation rate for the purposes of indexing is the gross domestic product price deflator and not the implicit price deflator for the gross national product.

Sections Amended

Section 422.4, subsection 1, paragraph a and section 422.4, subsection 2, paragraph a are amended in section 1 and section 2 of Senate File 2449.

Effective Date

For calendar years beginning on or after January 1, 1996. The tax rate bracket amounts and the standard deduction amounts for 1996 are to be adjusted for 100% of inflation for the determination period.

RESIDENT S CORPORATION SHAREHOLDER APPORTIONMENT

SF 2449-B

Prior Law

Resident shareholders in S corporations were not allowed to apportion income in order to determine the income subject to Iowa tax. Rather they were required to pay tax on 100% of the S corporation income and then take a credit for taxes paid to other states on the S corporation income.

New Provisions

Resident shareholders of a value-added corporation may compute their Iowa income tax by computing an amount tax on their total income and the prorating the tax in the ratio of the greater of (1) S corporation income attributable to Iowa sources, or (2) any cash or the value of property distributions which are made only to the extent they are made from income upon which Iowa income tax has not been paid. An out-of-state tax credit is not allowed on S corporation income.

A value-added corporation is a corporation that purchases, receives, or holds personal property of any description and which adds to its value by a process of manufacturing, construction, processing, or combining of different materials.

In order for a shareholder to take advantage of this provision, the shareholder must file a return under the old statutory provisions and then file a claim for refund with the original return recomputing the tax under the new provisions. The refunds are limited to \$5 million and if the refund claims exceed this amount the refunds are to be prorated. Any unpaid refund can not be applied to estimate tax. Interest will not accrue on the refunds if they are paid before the last day of February of the second succeeding calendar year after the last day of the tax year.

Sections Amended

Section 13 of Senate File 2449 adds new subsection 17A to 422.4, section 14 amends 422.5, subsection 1, paragraph j, section 15 amends 422.5 subsection 1, paragraph k, section 16 amends section 422.8, subsection 2, and section 17 adds new subsection 6 to section 422.8.

Effective Date

Effective retroactive to January 1, 1996 for tax years beginning on or after that date.

LIVESTOCK PRODUCTION TAX CREDIT REFUND FOR INDIVIDUALS AND CORPORATIONS

SF 2449-C

Prior Law

None

New Provisions

Corporate taxpayers and individual taxpayers who meet a number of qualifications are eligible for a livestock production tax credit refund for ownership of livestock in Iowa during the tax year. The amount of potential credit per operation is determined by adding for each head of livestock in the taxpayer's operation the product of ten cents times the number of corn equivalents consumed by that head of livestock in the tax year according to a schedule included in the law. Taxpayers involved in hog operations, poultry operations, beef operations and sheep operations are eligible for the refund credit assuming the taxpayers meet other qualifications. The amount of livestock production refund credit per livestock operation or per taxpayer may not exceed \$3,000 per tax year. In order to be eligible for the refund credit, a taxpayer must have a total net worth in the tax year of less than one million dollars. In addition, more than one-half of the taxpayer's gross income in the tax year must be from farming or ranching.

In order to file a refund claim for the livestock production credit, a taxpayer must file a claim within ten months of the last day of the tax year on claim forms provided by the department and with documentation requested by the department which would verify the taxpayer's refund claim. It is likely that the claim forms will be filed with the taxpayer's income tax return for the tax year. The livestock production tax refunds for the tax year may not exceed the amount appropriated by the legislature for the refunds. If the total dollar amount of the refund claims exceed the appropriated amount, each claim shall be paid an amount equal to the amount appropriated divided by the total number of claims, not to exceed the amount of a taxpayer's claim. If a taxpayer's claim is not paid in full, the taxpayer is not allowed to carry forward or backward any unpaid portion of the claim or use the unpaid portion as an estimated payment for the following tax year.

Note that for tax years beginning in the 1996 calendar year, livestock production tax refunds will be granted only for claims filed for taxpayers that have cow-calf livestock production operations. Therefore, taxpayers with only hog, poultry or sheep operations will not be eligible for refunds from livestock production in 1996 as well as taxpayers that have stocker cattle, feedlot cattle or dairy cattle in 1996. The department will determine on February 28th of the calendar year following the year in which the livestock production refund claims are to be filed if the total amount of refund claims for the tax year exceeds the amount appropriated by the legislature for the refunds for the tax year. If a taxpayer's claim for a tax year is not available by February 28 because the taxpayer is a fiscal filer, the claim shall be considered to be filed for the following tax year. For the 1996 tax year, two million dollars has been appropriated to pay refund claims.

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Sections Amended

New sections 422.120 and 422.122 are added in sections 19 and 21 of Senate File 2449.
The appropriation for the refunds is in new section 422.121 in section 20 of the Act.

Effective Date

Tax years beginning on or after January 1, 1996

DEPARTMENT BILL

SF 2455

Prior Law

The statute did not address the filing of tax returns or the payment of taxes by electronic media.

The 75% penalty for failure to pay the correct amount of tax with the intent to evade the tax did not apply to erroneous refund claims filed with the intent to evade tax.

Only the Director had the authority to extend the deadline for filing property tax credit and mobile home square footage reduced tax rate claims for the elderly and disabled beyond June 1.

The county treasurer was required to certify to the Department by August 1 requests for reimbursement for the amount of property tax credit and mobile home square footage reduced tax rate claims allowed to the elderly and disabled.

The Director was required to reimburse counties for special assessment credit claims allowed for the elderly and disabled by October 20.

Iowa Code § 427.1(27) contained an obsolete personal property tax exemption.

For purposes of computing the amount of real estate transfer tax, the term "consideration" included the amount of any debt on the property transferred but not assumed by the buyer (grantee).

New Provisions

The Director is required to adopt rules for the filing of tax returns by electronic means and the payment of taxes by electronic funds transfer or alternative methods. The rules are also to establish standards for the acceptance of a signature in a form other than the handwriting of a person.

A 75% penalty is imposed for the filing of an erroneous claim for tax refund with the intent to evade tax.

The county treasurer is authorized to extend the deadline for filing elderly and disabled property tax credit and mobile home reduced square footage tax rate claims from June 1 to September 30.

The dates for county treasurers to certify to the Department the amount of elderly and disabled property tax credit and mobile home reduced square footage tax rate claims allowed was changed from August 1 to the following May 1 for property tax credit claims and from August 1 to November 15 for mobile home square footage reduced tax rate claims.

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The date for the Director to reimburse counties for elderly and disabled special assessment credit claims allowed was changed from October 20 to November 15.

An obsolete personal property tax exemption provision was repealed since personal property has not been subject to tax since 1995.

"Consideration" for purposes of computing the amount of the real estate transfer tax is defined to exclude debt on the property transferred that is not assumed by the buyer (grantee).

Sections Amended

Section 1 of Senate File 2455 amends § 421.17, Code Supplement 1995, by adding new subsection 15; section 2 amends § 421.27, Code 1995, by adding new subsection 5A; section 3 amends § 425.20, unnumbered paragraph 2, Code 1995; section 4 amends § 425.23(3)(a), Code 1995; section 5 repeals § 427.1(27), Code Supplement 1995; section 6 amends § 428A.1, unnumbered paragraph 1, Code 1995; section 7 amends § 435.22(5), unnumbered paragraph 1, Code 1995, and section 8 provides effective dates.

Effective Date

Sections 1 and 2 take effect April 25, 1996 and apply retroactively to January 1, 1996; sections 5 and 6 take effect July 1, 1996 and sections 3, 4, and 7 take effect April 25, 1996 and apply retroactively to claims filed on or after January 1, 1996.

URBAN RENEWAL ASSESSMENTS

SF 2464

Prior Law

Property acquired for housing development purposes was assessed for taxation according to its present use.

A county revitalization area could include only industrial property.

For improvements to property to qualify for the urban revitalization tax exemption, it was a requirement that the value added increase the actual value of the property by at least 15% or at least 10% in the case of residential property.

New Provisions

A county board of supervisors of a county with a population of less than 20,000 may adopt an ordinance providing that property acquired for housing development be assessed for taxation in the same manner it was prior to acquisition for housing until sold or 5 years from the date of subdivision, whichever is shorter, and a county board of supervisors of a county with a population of 20,000 or more may adopt an ordinance providing that property acquired for housing development be assessed in the same manner it was prior to acquisition for housing until sold or 3 years from the date of subdivision, whichever is shorter. Upon sale or expiration of the applicable time period, the property is to be assessed for taxation as residential or commercial property.

A county may also include commercial and residential property in a revitalization area.

The sales price of the property, if lower than the actual value of the property, may be used to determine the percentage increase necessary for the improvements to qualify for the tax exemption if the improvements were begun within one year of the date the property was purchased.

Sections Amended

Section 37 of Senate File 2464 adds new § 404A.1; section 38 amends § 404.2(2)(f), unnumbered paragraph 1; section 40 amends § 404.5 by adding a new unnumbered paragraph and sections 41 and 43 provide effective dates. All amendments are to the 1995 Code.

Effective Date

Section 37 becomes effective July 1, 1996 and sections 38 and 40 become effective upon enactment. Section 40 applies to tax exemptions for improvements begun on or after January 1, 1995.

TUITION AND TEXTBOOK CREDIT INCREASE AND REPEAL OF THE TUITION AND TEXTBOOK DEDUCTION

SF 2467

Prior Law

Taxpayers who itemized deductions were given an additional deduction of up to one thousand dollars for amounts paid for tuition and textbooks for every dependent that attended an elementary or secondary school located in Iowa. Taxpayers who didn't itemize deductions for the tax year could claim a nonrefundable tax credit of 5% of up to one thousand dollars paid for tuition and textbooks for every dependent that attended an elementary or secondary school located in Iowa. However, taxpayers with net incomes of \$45,000 or more were not eligible for the deduction or the credit.

New Provisions

The tuition and textbook deduction is repealed. Taxpayers who itemize deductions and pay tuition and textbook expenses so dependents can attend grades kindergarten through 12th of schools in Iowa can claim a credit for these expenses. The credit percentage is increased from 5% to 10% and is still computed on up to the first thousand dollars the taxpayer pays for tuition and textbook expenses for a dependent. The requirement for a taxpayer's net income to be less than \$45,000 to be eligible for the credit is revoked.

Section Amended

Section 422.9, subsection 2, paragraph "f" is repealed. Section 422.12, subsection 2, unnumbered paragraph 1 is amended.

Effective Date

January 1, 1996, for tax years beginning on or after that date.

LONG DISTANCE TELEPHONE COMPANY ASSESSMENTS

SF 2470

Prior Law

For property tax assessment purposes, a "competitive long distance telephone company" was defined as a company that received more than half of its revenues from Iowa intrastate telecommunications services and facilities that the Department of Commerce determined to be subject to effective competition.

New Provisions

The definition of a " competitive long distance telephone company" was expanded to include companies receiving more than half of their revenues from Iowa intralata interexchange services.

Sections Amended

Section 73 of Senate File 2470 amends § 476.1D(10), Code Supplement 1995.

Effective Date

Effective July 1, 1996